



**USAID**  
FROM THE AMERICAN PEOPLE

**KYRGYZ REPUBLIC**

# CASE STUDY

## Industry Comes Out Of Shadows

### Information campaign helps entrepreneurs legalize their business



Chinara Askarova, Head of Entrepreneurship Department of Bishkek Mayor's Office at a Bishkek textile shop.

Photo: Pragma

*USAID's Business Environment Improvement project worked with Bishkek Mayor's Office to encourage legalization of light industry activities, an activity that led to a 184% increase in entrepreneurs working legally in the oblast, and a 276% increase in state fee collection from 2006 to 2007.*

### Challenge

A vast number of people in the Kyrgyz Republic work in light industry. In the country's capital Bishkek and the surrounding Chui Oblast alone, over 50,000 entrepreneurs are estimated to work in textile, wool processing, and shoe-making. Onerous tax and registration requirements, though, encouraged light industry entrepreneurs to operate in the "shadows". Because of its illegal status, workers in light industry could not protect their rights, businesses have been discouraged from expanding, and export has been hampered. To bring the light-industry out of the shadows, the Government established tax "patent" to enable entrepreneurs to pay a single, flat tax fee, and avoid complicated and time-consuming tax accounting. However, tax officers did not seem to be interested in publicizing the relevant tax procedures. This created an environment in which corruption persisted, and even increased as the light industry sector expanded.

### Initiative

To bridge the implementation gap left by the tax bodies, the USAID Business Environment Improvement (BEI) project helped the Bishkek Mayor's Office in March 2007 establish a working group to address the issue. The working group met with textile industry representatives from the provinces of Bishkek and Chui to explain, to the 89 companies present, the procedures and terms for issuance of light-industry patents, and the benefits of complying with the law. A series of radio announcements were arranged to reach entrepreneurs who did not attend the meeting and a brochure was distributed throughout the greater Bishkek area.

### Result

These informational efforts have substantially increased compliance rates on tax patents. According to the Bishkek Mayor's Office, during the six months between March and September 2007, the number of textile entrepreneurs working under a patent increased to 18,028 individuals, a growth of 184% compared to the same period in 2006. The amount of dues collected for patents during this period has nearly tripled. In addition, by legitimizing and strengthening the sector, important commerce and trade statistics can be officially recorded, and the sector itself can publicly and legitimately advocate on its own behalf. "Patenting of the textile industry sector addresses important social protection issues, and enables businesses to work legally. This allows businesses to work without fear of tax inspections, and helps us eliminate corruption," says Chinara Askarova, Head of Entrepreneurship Department of Bishkek Mayor's Office.